

Accounting for General Obligation Bonds

The Building Fund (Fund 21) is used to account for the receipt and expenditure of proceeds from the sale of bonds authorized by election and issued by an LEA under the provisions of *Education Code* Section 15100. The major expenditures in an LEA's Building Fund are related to the purchase and improvement of sites and the construction and modification of buildings.

The Bond Interest and Redemption Fund (Fund 51) is used to account for the repayment of bonds from taxes levied by the county auditor-controller.

It is important that debt issuance transactions be accounted for correctly and in the proper funds. The accounting must reflect the bond selling price, any issue costs deducted from the proceeds, and any accrued interest included in the selling price.

Selling price. Bonds may be sold at one of several prices:

- At par (selling price equal to the bond's face value).
- At a discount (selling price lower than face value). When the bond's stated interest rate is lower than the market interest rate on the day of issuance, the bonds will normally be sold at a discount.
- At a premium (selling price higher than face value). When the bond's stated interest rate is higher than the market interest rate on the day of issuance, the bonds will normally be sold at a premium.

Issue costs. Issue costs are normally deducted from the net proceeds received by the LEA. Issue costs might include the underwriter's discount and fees, bond insurance, or other administrative fees.

Accrued interest. When bonds are sold between scheduled interest payment dates, the accrued interest is typically "sold" to the purchaser. It will offset the first interest payment made to the purchaser.

A series of typical transactions and entries relating to the issuance and repayment of bonds, using the modified accrual basis of accounting appropriate in governmental funds, are illustrated below. For the purpose of these illustrations, encumbrance accounting entries are ignored.

1. The bond issuance is sold to the purchaser of the bonds.

Bonds issued at par:

Assumptions:	\$5,000,000	Face amount of bonds
	\$75,000	Issue costs deducted from proceeds
	\$4,925,000	Cash received

<u>Account Code</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
21-9010-0-0000-0000-9110	Cash in County Treasury	\$4,925,000	
21-9010-0-0000-9100-5800	Professional/Consulting Services and Operating Expenditures	\$75,000	
21-9010-0-0000-0000-8951	Proceeds from Sale of Bonds		\$5,000,000

Bonds issued at a discount:

Assumptions:	\$5,000,000	Face amount of bonds
	\$100,000	Discount
	\$75,000	Issue costs deducted from proceeds
	\$4,825,000	Cash received

<u>Account Code</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
21-9010-0-0000-0000-9110	Cash in County Treasury	\$4,825,000	
21-9010-0-0000-9100-5800	Professional/Consulting Services and Operating Expenditures	\$75,000	
21-9010-0-0000-9100-7699	All Other Financing Uses	\$100,000	
21-9010-0-0000-0000-8951	Proceeds from Sale of Bonds		\$5,000,000

Bonds issued at a premium:

Assumptions:	\$5,000,000	Face amount of bonds
	\$100,000	Premium (deposit to Bond Interest and Redemption Fund per <i>Education Code</i> Section 15146[b])
	\$75,000	Issue costs deducted from proceeds
	\$5,025,000	Cash received

<u>Account Code</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
21-9010-0-0000-0000-9110	Cash in County Treasury	\$4,925,000	
21-9010-0-0000-9100-5800	Professional/Consulting Services and Operating Expenditures	\$75,000	
21-9010-0-0000-0000-8951	Proceeds from Sale of Bonds		\$5,000,000
51-9010-0-0000-0000-9135	Cash with a Fiscal Agent/Trustee	\$100,000	
51-9010-0-0000-0000-8979	All Other Financing Sources		\$100,000

Bonds issued between interest payment dates (accrued interest sold to purchaser):

Assumptions:	\$5,000,000	Face amount of bonds
	\$5,000	Accrued interest "sold" to bond purchaser (deposit to Bond Interest and Redemption Fund per <i>EC</i> 15146[b])
	\$75,000	Issue costs deducted from proceeds
	\$4,930,000	Cash received

<u>Account Code</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
21-9010-0-0000-0000-9110	Cash in County Treasury	\$4,925,000	
21-9010-0-0000-9100-5800	Professional/Consulting Services and Operating Expenditures	\$75,000	
21-9010-0-0000-0000-8951	Proceeds from Sale of Bonds		\$5,000,000
51-9010-0-0000-0000-9135	Cash with a Fiscal Agent/Trustee	\$5,000	
51-9010-0-0000-0000-9500	Accounts Payable		\$5,000

A bond issuance is considered to have taken place as of the closing date for accounting and financial reporting purposes. An LEA should report the bond proceeds as of that date, which may require the LEA to record a receivable.

Bonds authorized but not issued are not recorded in governmental funds. They are treated similarly to a line of credit that has not been used.

2. Costs of site acquisition and construction are paid in the amount of \$4,500,000.

<u>Account Code</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
21-9010-0-0000-8500-6100	Sites and Improvement of Sites	\$1,000,000	
21-9010-0-0000-8500-6200	Buildings and Improvement of Buildings	\$3,500,000	
21-9010-0-0000-0000-9110	Cash in County Treasury		\$4,500,000

At the close of the project, there may be a remaining cash balance in the project fund that represents the excess amount of bond proceeds over the project's actual costs. The LEA should refer to the bond authorization for guidance in the disposition of the remaining funds.

3. The county auditor-controller maintains control over the Bond Interest and Redemption Fund and levies taxes in amounts sufficient to redeem the bonds as they come due. Interest is earned on the cash balance in the fund.

<u>Account Code</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
51-9010-0-0000-0000-9135	Cash with a Fiscal Agent/Trustee	\$221,000	
51-9010-0-0000-0000-8611	Voted Indebtedness Levies, Secured Roll		\$200,000
51-9010-0-0000-0000-8612	Voted Indebtedness Levies, Unsecured Roll		\$20,000
51-9010-0-0000-0000-8660	Interest		\$1,000

4. The county treasurer makes payments of bond principal and interest. The accrued interest "sold" to the purchaser when the bonds were issued offsets the first interest payment.

<u>Account Code</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
51-9010-0-0000-9100-7433	Bond Redemptions	\$190,000	
51-9010-0-0000-9100-7434	Bond Interest and Other Service Charges	\$5,000	
51-9010-0-0000-0000-9500	Accounts Payable	\$5,000	
51-9010-0-0000-0000-9135	Cash with a Fiscal Agent/Trustee		\$200,000

5. Any money remaining in the Bond Interest and Redemption Fund after payment of all bonds payable from the fund is transferred to the district's General Fund (*Education Code* Section 15234).

<u>Account Code</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
51-9010-0-0000-9300-7614	From Bond Interest and Redemption Fund to the General Fund	\$1,100	
51-9010-0-0000-0000-9135	Cash with a Fiscal Agent/Trustee		\$1,100
01-0000-0-0000-0000-9110	Cash in County Treasury	\$1,100	
01-0000-0-0000-0000-8914	To General Fund from Bond Interest and Redemption Fund		\$1,100

